The Deficit Reduction Act of 2005

Reconciliation Overview

COMMITTEE ON THE BUDGET
MAJORITY STAFF

House Committee on the Budget
Jim Nussle, Chairman
www.budget.house.gov

U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515-6065

November 1, 2005

Dear Republican Colleague,

Since Katrina hit, the subject of hurricane relief – both ensuring that victims receive critical aid, and then deciding how to pay for that aid – dominated Congress. Congress provided an unprecedented $62.5 billion in emergency relief, and it appears substantially more will be needed.

While Congress already had a comprehensive plan to create jobs, control spending *throughout* the budget, and reduce deficits, our plan did not – and could not – assume the immense new spending needed to respond to the hurricanes.

That is why we must stick to our current spending control plan with renewed commitment, and responsibly address our new fiscal reality.

This week, the Budget Committee will report The Deficit Reduction Act of 2005. This bill includes the savings recommendations of eight authorizing committees to achieve *net* savings of $53.9 billion in mandatory spending programs – $35 billion of which was required by the FY06 budget conference report. The additional savings reflects House Republicans' commitment to making a down payment on disaster spending.

I want to share with you and your staff the facts of budget reconciliation, and why it is critical we succeed in passing this legislation this year.

I've included a brief overview of The Deficit Reduction Act of 2005, talking points on why our Republican Plan includes mandatory spending and program reform, technical information on the reconciliation process, and charts for your use in communicating these facts.

If you have any questions regarding the information, please contact my communications staff at 226-9844.

Sincerely,

Jim Nussle
Chairman

P.S. Budget and economic updates are available on the Committee's website @ www.budget.house.gov.

RECONCILIATION RESOURCE KIT

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SUMMARY

THE DEFICIT REDUCTION ACT OF 2005

November 1, 2005

Note: The numbers included in this document are preliminary estimates.

- This bill provides $53.9 billion of savings over 5 years in the government's automatic-pilot mandatory spending programs. ("Mandatory spending" refers to programs that are not subject to the annual appropriations process.)

- These savings – pursuant to the FY 2006 budget (H.Con.Res. 95), and adjusted following Hurricanes Katrina and Rita – have three principal goals:

  - To provide a down-payment toward hurricane recovery and reconstruction costs. Congress already has provided $62.5 billion in recovery funding; additional funding requests are expected in the future.

  - To begin a longer-term effort at slowing the growth of entitlement spending, which now consumes about 54% of the total budget, and will rise to 62% by 2015 if left on its current path.

  - To stimulate reform of entitlement programs, many of which are outdated, inefficient, and excessively costly.

- Eight House authorizing committees have contributed to the savings effort, by modifying the authorizing laws for programs in their respective jurisdictions. Those committees, and their savings amounts, are as follows:

Deficit Reduction Act Savings by Committee
(outlays in millions of dollars)

Committee	Savings 2006-10
Agriculture	-3,649
Education and the Workforce	-20,422
Energy and Commerce	-17,066
Financial Services	-470
Judiciary	-428
Resources	-3,678
Transportation and Infrastructure	-156
Ways and Means	-8,047
Total Savings	-53,916

Source: House Budget Committee. Savings are expressed in negative numbers to reflect their effect on the deficit.

- The committee provisions have been submitted to the Committee on the Budget, which will bind them into a single reconciliation bill, and bring the measure to the House floor.

Authorized by . . . . **Jim Nussle, Budget Committee Chairman**

COMMITTEE ON AGRICULTURE

- Provisions include savings from food stamps (22%) and agriculture commodity programs (28%), and $50 million in new Katrina/Rita spending, for food stamps. Among the key items:
  - *Food Stamps*. Savings of $109 million in 2006, and $844 million over 2006-10, from reforms to target food stamp benefits – including terminating categorical eligibility for recipients of non-cash Temporary Aid for Needy Families [TANF] assistance, and tightening eligibility for immigrants.
  - *Agriculture Commodity Programs*. Savings of $533 million in 2006, and $1.006 billion over 2006-10. Provisions reduce payments by 1% for recipients of direct payments for 2006 through 2009, and institute a timing shift for direct payments, reducing the amount of direct payments that can be taken as advances. Also, the "Step 2" cotton program was terminated in response to a WTO ruling that the program was market-distorting.
  - *Conservation Programs*. Savings of $0 in 2006, $760 million over 2006-10. Provisions terminate and rescind unobligated balances in two conservation programs, and limit program funding for another.
- Special provisions for hurricane victims are:
  - *Emergency Food Assistance Program*. Costs of $12 million in 2006 and over 2006-10. The provision adds $12 million to the Emergency Food Assistance Program [TEFAP] to replenish food banks depleted as a result of hurricane relief.
  - *Waive Administrative Match for Food Stamps*. Costs of $38 million in 2006 and over 2006-10. The provision waives the State match of 50% for all State administrative costs within the Food Stamp Program for hurricane affected States during a specified period.

COMMITTEE ON EDUCATION AND THE WORKFORCE

- Total committee net savings are $20.422 billion over five years. Student loan reforms provide net savings of $14.470 billion from 2006-10 (70%), which includes $4.244 billion in student loan increases. Pension reforms provide $6.162 billion in savings, (30% of the total). Key savings policies are:
  - *Student Loan Reform*. Net savings of $7.525 billion in 2006, and $14.470 billion in 2006-10, mainly from provisions of the Higher Education Act (H.R. 609).
  - *Pension Reform*. Savings of $363 million in 2006, $6.162 billion in 2006-10. Provisions include raising the fixed rate premium to $30 per participant (from the current $19), granting the Pension Benefit Guaranty Corporation authority to increase premiums annually by as much as 20%, and imposing a new $1,250 per participant premium on terminated plans when sponsors emerge from bankruptcy.
- For hurricane victims, the package includes waivers – for institutions and students affected by the recent Gulf hurricanes – on the requirement that unused funds be returned. Provisions also grant a 6-month deferment for any student loan borrower who was living in or working in an area affected by Hurricanes Katrina and Rita.

COMMITTEE ON ENERGY AND COMMERCE

- Principal savings from spectrum sales and Medicaid. Provisions also include a hurricane-related spending increase of $2.5 billion for Medicaid, and a related spending increase of $1 billion for LIHEAP
  - *Spectrum*. Savings of $0 in 2006, $742 billion in 2006-10, consisting of $10 billion in gross spectrum auction receipts and a $1.533 billion budget authority increase including: $1 billion in converter boxes; $500 million in interoperability grants; and $33 million for two minor digital transition projects.
  - *Medicaid*. Savings of $440 million in 2006, $11.877 billion in 2006-10. Package of policies reforms Medicaid reimbursement for prescription drugs; reforms Medicaid rules dealing with asset transfers as a qualification of eligibility for Medicaid long-term care; modifies the current requirements for cost-sharing in Medicaid; and increases benefit flexibility. In addition, long-term care partnerships are extended to any State; and Health Opportunity Accounts are made available as an option to States.
- Hurricane-related and other provisions provide $2.515 billion in budget authority in 2006 and $2.553 over 5 years. The Federal Medical Assistance Program match is increased to 100%, until May 15, 2006, for providing Medicaid or SCHIP items and services to any individual residing in a major Katrina disaster parish or county or a Katrina survivor.

COMMITTEE ON RESOURCES

- Key savings items:
  - *ANWR*. Savings of $0 in 2006, $2.5 billion in 2006-10, from opening the Coastal Plain of the Arctic National Wildlife Refuge to leasing for oil and natural gas.
  - *Outer Continental Shelf Moratorium Opt-Out and Mining Provisions*. Net savings of $0 in 2006, and $158 million over five years. This modernizes federal mineral policies to promote economic development, encourage investment, and create jobs.
  - *Disposal of Certain Public Lands in the District of Columbia, Nevada, and Idaho*. Savings of $5 million in 2006 and $128 million in 2006-10, from selling surface rights for parcels of land to companies that have held mining rights for years.
- Also included is an oil shale initiative designed to develop the 1.5 trillion to 1.8 trillion barrels of oil contained in shale and tar sands in Colorado, Utah, and Wyoming.

COMMITTEE ON WAYS AND MEANS

- Provisions achieve net savings of $100 million in 2006 and $8 billion over five years. Also included are $1.4 billion in costs associated with reauthorizing the TANF and mandatory child care block grants for five years. Key provisions include:
  - *TANF*. Cost of $237 million in 2006, $926 million in 2006-10. Reauthorizes TANF for 5 years and adds new funding for contingency funds, supplemental grants, research and demonstration projects, and healthy marriage promotion.

- *Child Care*. Cost of $0 in 2006, $434 million in 2006-10. Authorizes an additional $500 million in budget authority for mandatory child care assistance to states during the period 2007-10.
- *Child Support Enforcement.* Savings of $4.899 billion in 2006-10. Makes changes to Child Support Enforcement, some of which cost money by increasing the amount of collections which are passed through to the custodial parents. The two largest changes, however, result in substantial savings. Those are eliminating the Federal match when States spend CSE incentive payments, saving $1.6 billion, and phasing in a reduction in the Federal matching rate for administrative expenses from 66% to 50%, which saves $3.8 billion.
- *Child Welfare*. Savings of $80 million in 2006, $577 million in 2006-10. Savings result from two policies: repeal of the Rosales Decision, which restores within the Ninth Judicial Circuit the requirement that federal foster care maintenance funding be based on the income of the home from which a child is removed; and limiting the Federal match on State administrative costs for "candidate" foster care children to 12 months.
- *Supplemental Security Income*. Savings of $261 million in 2006, $732 million in 2006-10. Savings result from two policies: one requires the Commissioner of the Social Security Administration to conduct pre-effectuation reviews on cases of persons turning age 18 who are seeking to continue benefits based on disability or blindness. The second lowers the threshold at which a current-law requirement to pay SSI lump sum awards is applied.
- *Repeal of Continued Dumping and Subsidy Offset*. Savings of $0 in 2006, $3.2 billion in 2006-10. Eliminates a requirement that duties collected under antidumping and counterveiling duty orders must be distributed to eligible domestic producers that supported the petition that resulted in the imposition of the duties. This brings the U.S. into compliance with the World Trade Organization's ruling that the payments to domestic producers are illegal subsidies.

COMMITTEE ON FINANCIAL SERVICES

- Achieves $30 million in savings in 2006, and $470 million in net savings over 5 years. Contains $400 million cost over five years associated with increased costs to resolve failed savings institutions resulting from raising the limit for deposits qualifying for Federal deposit insurance to $130,000 per account; $600 million in net savings results from increased collections of deposit insurance premium payments; and $270 million in savings resulting from making the FHA's authority to renovate and sell certain foreclosed properties from the General and Special Risk program subject to annual appropriations.

COMMITTEE ON THE JUDICIARY

- Saves $76 million net in 2006 and $428 million net over 5 years. The submission increases L-1 non-immigrant visa fees. Submission also contains a single spending proposal that creates additional Federal judgeships.

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

- Includes an increase in vessel tonnage fees to collect $156 million over 5 years.

HOUSE BUDGET COMMITTEE 109th Congress MAJORITY CAUCUS

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FACT SHEET

THE RECONCILIATION PROCESS:
How It Works

Quick Facts

➢ The Budget Act of 1974 established the reconciliation process to give Congress a means of addressing mandatory spending (also called direct spending) – which, unlike discretionary spending, is not subject to regular annual review.

➢ The process starts in the budget resolution, which establishes deficit reduction targets for certain committees, and requires legislation to reduce rates of direct spending for programs in those committees' jurisdiction.
  - *While this year's budget resolution provided for three reconciliation bills, only the spending bill will be reported by the Budget Committee (as explained below). The tax relief and debt limit reconciliation bills from the Ways & Means Committee will go directly to the floor.*

➢ A reconciliation directive specifies *only* the change in spending. The committees of jurisdiction have full authority to determine specific policy reforms and submit legislation as they judge appropriate, so long as they achieve the savings required.
  - Each reconciled committee must submit this legislation to the Budget Committee by a specified date – in this year's case, the date was moved from September 16th to October 28th to accommodate hurricane relief efforts.
  - In addition to the legislation, committee submissions include a cost estimate (which must be made by the Congressional Budget Office), purpose, section-by-section, and so forth.

➢ The Budget Committee receives and combines reconciled committees' legislation into a comprehensive measure – a reconciliation bill – to implement the instructions. The Budget Committee then marks up this package and reports it to the House.
  - Typically, each authorizing committee's submission is a separate title.
  - The Budget Committee may *not* make any substantive change to the legislative language submitted by an authorizing committee.

➢ The Budget Committee may seek to amend the bill on the floor if a committee fails to meet its savings target.
  - Typically, only substitute amendments are allowed on the floor – no "cut and bite" amendments.
  - Any amendments offered on the floor are required to be deficit neutral (cannot increase the deficit).

➢ Once the House and Senate pass reconciliation bills, a conference committee is convened, and reports the final version of the bill. Each chamber must then pass the bill, which – unlike the budget resolution – is sent to the President for his signature.

Senate-Specific

- **An important feature of the reconciliation procedure is that it cannot be filibustered in the Senate: debate and amendments are limited, so it can pass that body with 51 votes.**

- **The "Byrd Rule"**: The Senate can use this rule to strike provisions from the reconciliation bill that do not have a direct budgetary impact.
  - Such provisions are termed "extraneous," and a point of order may be raised in the Senate against any of them.
  - Unless waived, the point of order causes the provision to be dropped from the bill.
  - The rule prohibits any change in Social Security.
  - It also prohibits provisions that cause the deficit to increase in years subsequent to the time period covered by the budget resolution – in this year's case, years after fiscal year 2010.

Brief History

- Since the enactment of the Budget Act in 1974, Congress has passed 19 reconciliation bills: 16 were signed into law by the President; three were vetoed.

- Since 1990, Congress has passed, and the President has signed into law, four reconciliation bills.

FY 2006 Reconciliation

- This year's budget marks the first time in almost a decade – since 1997 – that Congress has used the reconciliation process to reduce the deficit through reforms of mandatory programs. (Congress used reconciliation for tax relief in 2001 and 2003.)

- This year's reconciliation instructions contain total budget-directed savings of $34.7 billion, plus an additional savings of $15 billion in the House to help pay for hurricane relief. While this year's effort will not "fix" our mandatory spending problem in one stroke, it does provide the critically needed first step to regaining control of our currently unsustainable growth in mandatory spending.

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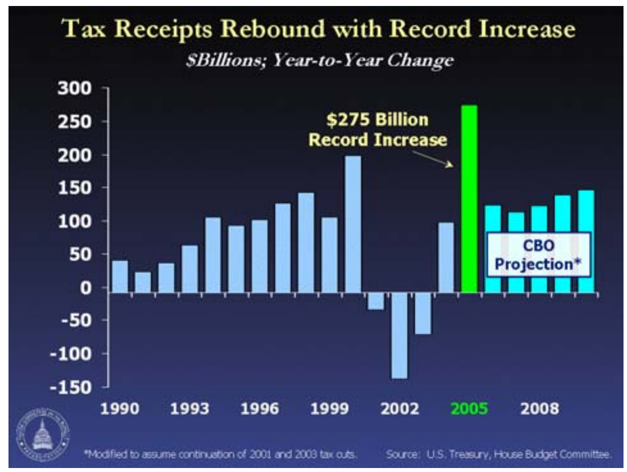
TALKING POINTS

THE REPUBLICAN PLAN:
Before the Hurricanes

The successful leadership and policies of the Republican Congress was working to create jobs, control spending, and reduce the deficit. *The Republican Plan Worked – even beyond our expectations!*

Tax Relief and Strong, Sustained Economic Growth

- The tax relief we passed in 2001, 2002, and 2003 helped boost our economic recovery and support strong, sustained economic and jobs growth.
- GDP grew more than 3.2% for each of the last *ten* quarters.
- Prior to the storms, the economy had generated 28 straight months of job growth.
- And even *with* accelerated tax relief, our strong economy drove federal tax receipts up almost 15% over last year.

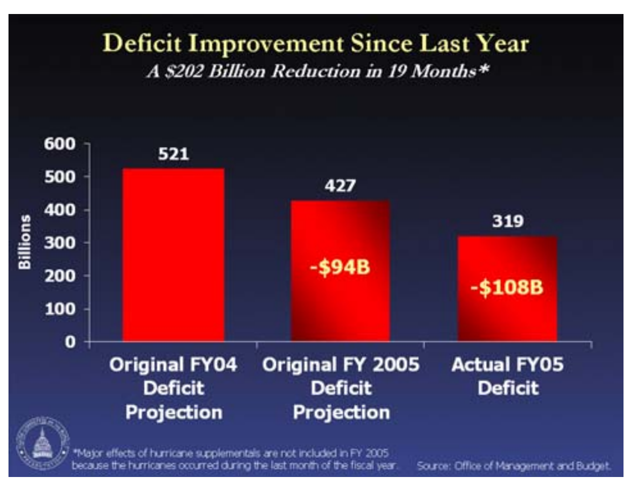


Spending Control

- Last year, the Republican Congress held non-security discretionary spending growth to 1.4% – less than inflation – and down from the previous 5-year average of 6.3%.
- With all 11 appropriations bills passed, House Republicans' spending was within the tight discretionary limits set by the budget resolution, and on track to reduce non-emergency, non-security spending BELOW last year's level!

Deficit Reduction

- The mid-year deficit estimates were dropping dramatically – by about $96 billion for FY2005, and about $200 billion over the past two years.
- The surge in tax revenues has been the main factor in the substantial deficit reductions.



TALKING POINTS (Cont.)

THE REPUBLICAN PLAN:
After the Hurricanes

In the wake of Hurricane Katrina, the Republican Plan *continues* to bolster the economy and jobs market and, as we now know, led to even lower deficits than expected prior to the hurricane.

- Economists expect a return to 3.4% GDP growth in 2006, following a hurricane-induced dip to 2.9% for the last quarter of 2005.

- Even with the hurricane's effects, gross domestic product [GDP] has averaged 3.7% over the past eight quarters, and over 4.2 million new payroll jobs have been created in the past 28 months.

- On October 14 – nearly six weeks after Hurricane Katrina hit – OMB released data showing a continued decline of the deficit to $319 billion for FY 2005.

<u>Unprecedented Emergency Spending</u>

Our plan did not – *and could not* – assume the unprecedented disaster, or the immense new spending needs that followed.

- Congress immediately acted to provide $62 billion in emergency relief, as well as a down payment on reconstruction.
  - As of October 26, about one-third, or $19.6 billion, of the hurricane disaster relief funds had been spent or "obligated" for hurricane relief.

- While the costs are not yet known, additional funding requests are expected in the near future.

<u>Responsible Choices</u>

The Republican Congress already has a comprehensive plan for deficit reduction that addresses mandatory spending – the largest and least sustainable portion of federal government spending.

- Following the hurricane disasters, we're taking that plan up a notch – to acknowledge, and responsibly address, our new fiscal reality.

- House Republicans are building upon the $35 billion in mandatory savings – as required by the current budget – and increasing those savings to $53.9 billion in NET savings over the next five years.

- We will achieve these additional mandatory savings *without* losing sight of victims' needs.

- We have also committed to find further reductions in the discretionary portion of the budget.

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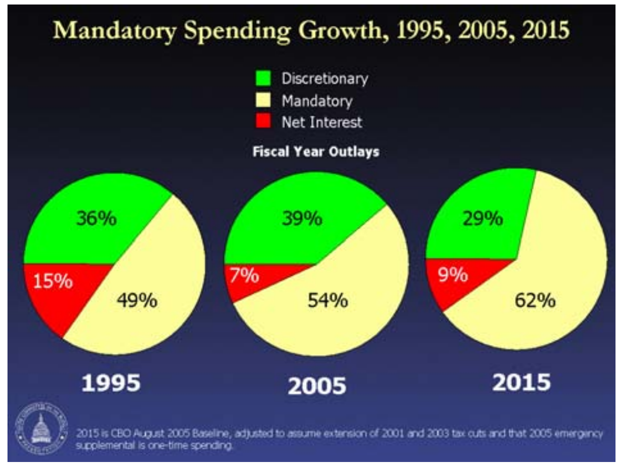
TALKING POINTS

CONTROLLING MANDATORY SPENDING:
Slowing Unsustainable Growth



✓ Long after our current spending crisis has passed, the mandatory spending crisis will remain. The baby boomers will still retire, medical costs will still skyrocket, and our largest government programs will still grow far beyond our means to sustain them.

✓ <u>The current growth rate of mandatory spending is unsustainable</u>. Mandatory spending is currently growing at nearly 6% per year – substantially faster than our economy, and *more than twice* the rate of inflation.

✓ Today it takes up 54 % of the total federal budget. If left on its current path – in just a decade – it will consume 62 % of our total budget.

✓ Eventually, mandatory spending will crowd out all other priorities – such as education, veterans, science, agriculture, environment, even homeland security and defense – and any kind of overall budget control.
- *"Expected growth in these programs [Social Security, Medicare, and Medicaid], along with projected increases in interest on the debt and defense, will absorb all of the government's currently projected revenue within eight years, leaving nothing for any other program."* (**The Brookings Institution**, *Restoring Fiscal Sanity*, 1/04)

✓ Our now strong economy – which is creating jobs and reducing the deficit – will be severely strained if the rate of mandatory spending growth is left unchecked.

✓ Even the mandatory programs themselves are at the peril of their own growth.
- *"...left at historic growth rates the growth in these health programs [Medicare and Medicaid] especially will likely outstrip our ability to finance them and place our fiscal policy on an unsustainable course."* (**CBO Director Douglas Holtz-Eakin**, Senate Budget Committee Hearing, 2/2005)

✓ While discretionary spending control and strong economic growth are critical to reducing the deficit, even *combined*, they cannot get us where we need to be to meet the unprecedented challenges facing us in the near-future – *let alone get us back to balance*.

✓ We will never "control" federal spending without addressing the largest piece of it.

✓ Regaining control of mandatory spending – which Republicans MUST do – only gets harder with each passing year.
- *"You either choose to do something in advance, which will ameliorate the problem...or wait until the problem is right on you, in which the solutions are going to be very painful."* (**Fed Chairman Alan Greenspan**, House Budget Committee Hearing, 3/2005)

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TALKING POINTS

CONTROLLING MANDATORY SPENDING:
Driving Reform

✓ Reconciliation isn't just about saving money; it's about reforming our largest, most critical government programs to ensure they are meeting their core missions – *to help those most in need*.

✓ Unlike discretionary programs, which are subject to yearly review through the appropriations process, mandatory spending simply operates on "auto-pilot." Unless changed by law, it just keeps going and growing – largely without reform or even review.

✓ Reconciliation offers the critically needed opportunity to check the progress of these programs.

✓ Our largest mandatory programs spend hundreds of billions of taxpayer dollars each year. They also *lose* vast amounts of those dollars to waste, fraud and abuse. Reconciliation addresses this waste, to ensure that every dollar is hitting its intended target.

✓ Many of our largest mandatory programs are running on decades-old models which have not been fundamentally updated since their creation. Reconciliation is *already* driving critically needed reform in mandatory programs.

- **Medicaid Reform**: To help get the troubled Medicaid program on a more sustainable path, reforms to reduce fraud and abuse will save more than $2 billion, and the collection of small medical co-payments by states will produce at least $2 billion in savings. Keeping pharmaceuticals more in line with actual costs will save at least $2 billion. Additionally, setting benefits packages to look more like private insurance/state employee health plans will save more than $3.9 billion.
- **Eliminating Excessive Student Loan Overhead Costs**: Limiting overhead costs charged by lenders in the student loan programs, and reducing waste and inefficiency will help generate about $14.5 billion in savings over the next five years.
- **Pensions Security**: To help prevent a taxpayer bailout, proposals on pensions raise the flat rate premiums and establish a termination premium for companies that terminate their pension plans in bankruptcy to generate savings of $6.2 billion over 5 years.
- **Food Stamp Reform**: The reforms in the House proposal will require persons who receive non-cash TANF services to meet the regular income eligibility rules to obtain Food Stamps. The proposal also lengthens the period non-citizens must reside in the U.S. to qualify for Food Stamps from 5 to 7 years.
- **Energy Independence**: To help reduce our dependence on foreign oil, the proposal will allow lease sales to produce 10.4 billion barrels of oil in the northern coastal plan of the Arctic National Wildlife Refuge [ANWR], which will raise $2.4 billion. Additionally, $1.5 billion will be netted over a 5-year period from new energy production areas, $155 million will be raised over 5 years by updating antiquated mining laws, and federal land sales and conveyances to the District of Columbia will generate $122 million over five years.
- **Equalizing Federal and State Child Support Enforcement Costs**: To increase fairness in the allocation of federal and state child support enforcement costs, this proposal reduces the federal matching rate for child support administrative costs from 66% to 50% – as is the case for similar federal programs such as food stamps, Medicaid, and foster care and adoption assistance. Additionally, the proposal will eliminate "double dipping" in state incentive payments. Ninety-one percent of all child support collections are made on behalf of families *not* on Welfare.

TALKING POINTS

CRITICISMS AND REBUTTALS:
General Issues

Claim: *This is the worst time for Republicans to be "cutting" programs for the poor. Republicans should cancel reconciliation immediately.*

Fact: Reconciliation does not "cut" mandatory spending – <u>it slows the growth rate by one-tenth of one percent – over five years</u>. Mandatory spending will still grow an average of 6.3 percent per year – *far* faster than our economy, *and more than twice the rate of inflation*.

Fact: To help lessen the impact of increased fuel costs, the bill also assumes $1 billion in additional funding for the Low-Income Home Energy Assistance Program (LIHEAP) to help families heat their homes.

Fact: Long after the Gulf region has recovered, the problem of mandatory spending will still be with us. The baby-boomers will still retire, medical costs will still skyrocket, and our largest government programs will still grow *far* beyond our means to sustain them. *We must take this critical first step to regain control of mandatory spending, and begin the reform process needed to ensure the largest mandatory programs can continue.*

- Our largest mandatory programs are unsustainable at their current growth rates.
- If left on its current path, mandatory spending will eventually crowd out all other priorities.
- Reconciliation is driving critically-needed reform, and helping to ensure our largest mandatory programs can continue to help those most in need – today, and in the future.

Fact: Hurricane victims will not be hurt by this bill:

- Congress has already provided $62.5 billion in emergency relief for hurricane victims.
- The reconciliation bill contains additional targeted assistance for hurricane victims.
- Program reforms have been carefully crafted to protect hurricane victims.
- This includes waiving the State match for Medicaid and Food Stamps.

Claim: *These spending cuts will be used to pay for tax cuts, not the costs of hurricane response or deficit reduction.*

Fact: This is just another thinly-veiled Democrat excuse to raise taxes. Rather than doing the necessary work to reduce spending elsewhere in the budget, Democrats – as always – just want the American people to pay more so they can continue to spend more.

- Raising taxes is exactly the wrong thing to do. A strong and resilient economy with solid jobs growth is the best foundation for the federal budget, and is critical in helping hurricane victims get back on their feet.
- The Republican economic policies work:
  - Our economy grew at a robust 3.8% annualized rate in the 3rd quarter of this year and, for the first time since 1986, we have seen a two-and-a-half year stretch of uninterrupted quarterly growth over 3%.
  - Until now, our economy has <u>never</u> had a streak of more than seven consecutive quarters of 3% or

higher annualized growth in the 58 years that quarterly gross domestic product statistics have been reported.

- Even the oil and gasoline price spikes have not thrown our strong economy off track.

- Even *with* our tax relief, tax revenues this year were up 15% from last year – and that surge in revenues was the largest factor in the dramatic deficit reduction – nearly $100 billion this year, and $200 billion over the past two years.

Claim: *The Republicans' reconciliation bill is hypocritical – they insist on offsets for the hurricane costs but not for the war.*

Fact: First, this claim just has the facts wrong. We did better than "offset" – after the fact – the ongoing operations in Iraq and Afghanistan; we *budgeted* for them.

- Our past two budgets *(the Administration's budgets have <u>not</u> included funding for ongoing operations)* each included $50 billion for the war. This was not "emergency" or "supplemental" funding. It was included in the overall budget plan, and weighed against other priorities.
- To help pay for it, we've not only held the line on spending, but kept in place pro-growth policies that have reduced the deficit by about $200 billion.

We've adapted reconciliation to make a down-payment on what's *already* been spent for hurricane recovery:

- We're working to ensure that *future* hurricane relief spending is incorporated in the overall budget, rather than through piecemeal, unplanned supplemental spending bills.
- We're pleased to hear that our friends on the other side support this effort to do the right thing by not only finding ways to pay for – but to plan for – both the needs in Biloxi and in Baghdad.

Claim: *Even with these spending cuts, the Republican's budget still increases the deficit by more than $100 billion over five years.*

Fact: If spending has been high in recent years, it's because the demands we have faced were extraordinary:

- We took the lead in a global war against terrorism following the attacks of September 11.
- We launched a major effort to enhance our homeland security.
- We lowered tax burdens to provided a cushion through the slowdown and recession of 2000-01, and the terrorist attacks of 9-11. Our policies *continue* to work for sustained economic growth and job creation.
- More recently, we responded to Hurricane Katrina with $62.5 billion in emergency funding to help the victims of that catastrophe.

Fact: While Republicans have been taking action to responsibly reduce government spending, through their actions time and again Democrats have shown they want to spend at much higher levels. Under Democrats, the deficit would be worse:

- Democrats have offered ZERO in mandatory savings.
- Last year Republicans took a major step in controlling discretionary spending, holding non-security appropriations to 1.4% growth. Democrats just said "NO."
- This year we began the challenging process of getting a grip on mandatory spending. And we've stepped up our efforts with increased savings to help offset hurricane-related spending. Again, Democrats are just saying "NO."

TALKING POINTS

CRITICISMS AND REBUTTALS:
Specific Programs

Medicaid

Claim: *Republicans are cutting Medicaid, and hurting those most in need – including hurricane victims.*

Fact: The Medicaid program is in crisis – it simply cannot be sustained without reform.

- Medicaid coverage is inadequate, and the program hasn't been updated in over 20 years – despite countless medical advances.
- Medicaid's rules are so rigid that those who administer the programs – our State Governors – tell us their hands are tied in trying to improve or tailor the program to meet their States' widely-varying needs.
- Costs are soaring and unsustainable. Between 2000 and 2005, the national Medicaid caseload increased by an astounding 40% – and federal and state costs have risen 56% over the past six years.
- Medicaid is already the biggest item in state budgets – exceeding elementary and secondary education, combined. <u>Analysts predict Medicaid will eventually absorb as much as 80-100% of all state revenues</u>.
- Medicaid beneficiaries are losing coverage. Faced with skyrocketing costs and inflexible rules, many states are taking drastic action to avoid financial ruin:
  - Between 2002 and 2005, 38 states reduced eligibility and 34 states reduced benefits.
  - Tennessee is dropping more than 200,000 Medicaid beneficiaries from the program, leaving these individuals with no health coverage.
  - Missouri enacted legislation that is expected to result in 100,000 beneficiaries losing coverage.

Fact: Reform will allow Medicaid to provide better care to more Americans now – and for years to come.

- The Medicaid reforms in the reconciliation bill include:
  - **Rooting out wasteful spending:** The government routinely overpays for prescription drugs for beneficiaries. In fact, Medicaid once paid $5,336 for a prescription that only cost the pharmacist $88 to obtain. The Department of Health and Human Services inspector general found in 2002 that Medicaid reimbursements exceeded pharmacists' true costs by $1.5 billion. Every dollar wasted on overpayments is a dollar that does not go to treat patients.
  - **Providing greater flexibility to States:** Medicaid covers newborn babies and seniors alike, but state officials are forced to offer a one-size-fits-all program. States should have greater flexibility to better target scarce resources and offer coverage that better meets patient's needs.
  - **Reducing fraud and abuse:** Increasingly middle and upper-income seniors are transferring or hiding assets to appear impoverished and, thus, entitled to Medicaid coverage for long-term care services primarily in nursing homes. Congress should ensure Medicaid dollars support only the truly needy and encourage long-term care insurance and other options for those who can pay.
  - **Requiring personal responsibility:** Today, states can charge a co-payment of no more than $3 - regardless of the patient's ability to pay - but they lack the tools to collect even that modest sum.

Fact: The reconciliation bill includes specific provisions to ensure victims of the recent hurricanes remain covered, wherever they are now located.

- States would be reimbursed $2.5 billion for the costs they incurred during hurricane relief efforts.

Education/Student Loans

Claim: *The reconciliation bill imposes deep cuts in student loans.*

Fact: As more Americans go to college and costs increase, student loan programs have grown significantly. Under this bill, student financial aid will continue to increase with the growth in college enrollment, and financial aid actually goes up through increases in loan limits and reductions in origination fees.

- Republicans believe improvements in student loan programs can translate into savings for taxpayers while maintaining and even expanding benefits and services for students.
- By investing in technology and refining programs and services for students, loan programs have been able to operate more efficiently. This improved efficiency should translate into savings for taxpayers.
- Reducing program waste and inefficiency places higher education programs on a more stable financial foundation to ensure they remain viable for students today, and well into the future.

Fact: **Lower Borrower Interest Rates**. The bill allows students to continue to enjoy low market-based rates, at 4.7% today, set by the current variable rate structure. The scheduled conversion to a 6.8% fixed interest rate would prevent students from taking advantage of low market-based rates. *The bill repeals that jump*.

Fact: **Ending Excess Subsidies**. <u>This proposal eliminates several provisions that currently allow student loan providers to enjoy a windfall by collecting excess subsidies</u>:

- Permanently ends practices that have allowed some lenders to collect a minimum 9.5% rate of return on some student loans.
- Increases risk sharing by reducing the insurance rates provided to lenders in cases of loan default and increasing lender-paid fees.
- Further reduces subsidies for lenders that primarily provide consolidation loans.
- Reduces collection costs to encourage greater efficiency in default collections.
- Eliminates "floor income" provision which permits lenders to receive more than their guaranteed rate of return.

Fact: **New Loan Flexibility**. The bill gives consolidation loan borrowers a choice between a variable and fixed interest rate and maintains flexibility for borrowers through a fiscally sound interest rate structure. The bill also provides for a new interest-only repayment option and eliminates barriers that currently prevent some borrowers from consolidating with the lender of their choice.

Fact: **Lower Borrower Origination Fees.** The bill reduces and equalizes student loan fees on all student loans.

- Guaranteed loan borrower origination fees are lowered from 3% to 0% while aligning direct loan and guaranteed loan fees. Current borrowers can pay up to 4% (3% origination and 1% guaranty fee) when borrowing. True, this legislation will require guaranty agencies to charge the currently authorized 1% guaranty fee on guaranteed loans, but, taken together with the drop in origination fees, borrower fees will drop to 1% for both guaranteed and direct loans.

ANWR

Claim: *Exploration and development in the ANWR area will endanger the fragile coastal environment without regard to local economies and customs, ecosystems, and wildlife migration patterns.*

Fact: Only a tiny fraction of ANWR's federal lands will be opened for energy production – a total of 2000 acres out of the 19 *million* total acres of land, *or just over 1% of the total refuge area*.

- This measure requires that the best commercial practices be used and has the world's toughest environmental safeguards in place.
- The bill requires equipment removal and restoration, and will strive to assure there are no significant adverse effects on fish and wildlife, their habitat, their food sources, or the environment.

Claim: *This bill will do nothing to provide economic relief through increased oil production, or to provide relief through the price of oil and natural gas.*

Fact: ANWR is by no means the only solution to our national energy problems, but it is an important and necessary component. This strategy includes production from all available domestic sources.

- ANWR represents America's single greatest prospect for future oil, with projections that it could produce MORE THAN one million barrels of oil per day – about 20% of our domestic daily production.
- This provision will provide relief to those suffering as a result of the high cost of fuel.
- Experts have estimated that energy production in ANWR will create more than 200,000 new American jobs.
- ANWR is one part of a portfolio-based approach to increasing domestic energy production, which will include other fossil fuels and renewable energy sources.

Pensions

Claim: *This bill will do nothing to protect the long-term stability of the Pension Benefit Guaranty Corporation [PBGC] and the benefits of 44 million Americans.*

Fact: **Just four years ago, the PBGC operated with an annual surplus**. However, the agency's financial health has been declining rapidly ever since, and it currently operates with a $23 billion deficit. Although the PBGC has enough resources to make benefit payments for the near future, the long-term outlook for the agency is anything but certain. Even though no tax dollars are used to fund the PBGC, should its fiscal condition continue to deteriorate, a taxpayer bailout of the agency is a very real possibility.

- Congress has not raised the $19 premium employers pay to the PBGC since 1991. The premiums are the PBGC's primary revenue source for paying benefits to participants in terminated plans. Therefore, a reasonable premium increase will help strengthen the financial condition of the agency.
- This bill increases flat-rate premiums from $19 to $30 per participant beginning in 2006 and provides the agency the discretion to increase them up to 20 percent each year thereafter. Congress reserves the authority to disapprove such a discretionary increase each year.
- This bill also establishes a $1,250 per participant termination premium paid for three consecutive years by companies that terminate their plans through bankruptcy, to be paid once a company emerges from bankruptcy.

Together, these proposals will generate savings of about $6.2 billion over five years and provide the PBGC with much-needed financial resources.

Food Stamps

Claim: *The reconciliation bill slashes food stamp benefits, and particularly hurts hurricane victims***.**

Fact: Over the last five years, spending on the food stamp program increased from $20.1 billion in FY 2001 to $33.4 billion in FY 2006, or an average annual increase of 9.9%. The reconciliation bill achieves savings of $844 million from two policies involving food stamps.

- People who receive services through TANF-funded programs – such as job referrals, resume preparation, or a one-time emergency payment to repair an automobile used to commute to a job – may have incomes that are above the level of eligibility for food stamps.
- Households receiving TANF-funded services, but not cash, would no longer be automatically eligible for food stamps**, but could still apply for food stamps under regular program rules**.
- The waiting period for food stamp eligibility for non-citizens will be increased from 5 years to 7 years.
- It makes sense to discourage the availability of public benefits from becoming a magnet for immigration.
- Provides hurricane affected states with a 100% match to administrative costs to assist in disaster recovery.

Commodity Payments for Farmers

Claim: *Republicans are cutting commodity payments for farmers.*

Fact: The House reconciliation package maintains the safety net provisions of the 2002 Farm Bill, so that the nation's farmers and ranchers can plan and make production decisions knowing that the 2002 Farm Bill will remain effectively intact throughout the Farm Bill's duration.

- Farmers who receive direct payments from commodities programs that were authorized under the generous 2002 Farm Bill will see only a 1 penny reduction on every $1 worth of benefits.
- Savings is also derived from the Conservation Security Program by limiting future enrollment, meaning the savings does not affect any farmer currently participating in the program.

Supplemental Security Income (SSI)

Claim: *The reconciliation bill imposes deep cuts in Supplemental Security Income (SSI), which provides income to some of the lowest income elderly and disabled people in America.*

Fact: <u>Under this bill, no one who meets the current law eligibility requirements for SSI will lose any benefits.</u> The proposal simply lengthens the period over which some new SSI enrollees will receive (combined) payments if the lump sum exceeds $1,800.

- Under current law, lump sum payments exceeding $7,200 (the equivalent of 12 months of maximum SSI benefits) must be paid in three installments at six-month intervals. This is done to encourage responsbile budgeting, and so beneficiaries may continue receiving monthly SSI benefit checks, since persons with over $2000 in resources lose their eligibility for SSI benefits.
- Reducing the threshold at which lump sum payments are paid in intervals to $1,800 ensures that beneficiaries do not face pressure to quickly spend down the lump sums they receive in order to retain their eligibility.
- This change does not reduce any benefits – it simply spreads out more lump sum payments consistent with current policy.

- Spending on SSI benefits increased above the rate of inflation from $29.5 billion in 2000 to $36.5 billion in 2005, or an average annual increase of 4.4%.

TANF and Child Care

Claim: *The reconciliation bill fails to increase funding for child care assistance.*

Fact: The reconciliation bill provides a five-year reauthorization for the Temporary Assistance for Needy Families (TANF) block grant and federal mandatory child care funding.

- The bill maintains the current $17 billion per year TANF block grant, despite a 60% reduction in TANF recipients since the 1996 welfare reforms.
- The bill provides a net increase in funding for TANF of $926 million over the next five years.
- The bill also authorizes an additional $500 million in new mandatory child care funding, generating outlays of $434 million above the baseline for the period 2006-2010.
- Additional discretionary funds are also authorized.
- Failure to enact the reconciliation bill will mean states will not receive this new additional child care and TANF funding and flexibility to design programs that more effectively serve low income families.

Child Support Enforcement

Claim: *The reconciliation bill cuts the administrative matching rate for child support enforcement from 66% to 50%. This will lead to decreased collections of child support from non-custodial parents, hurting kids and rewarding deadbeat dads.*

Fact: Currently, the federal matching rate for child support administrative expenditures is 66%, which is significantly higher than the 50% rate applicable to other major federal programs.

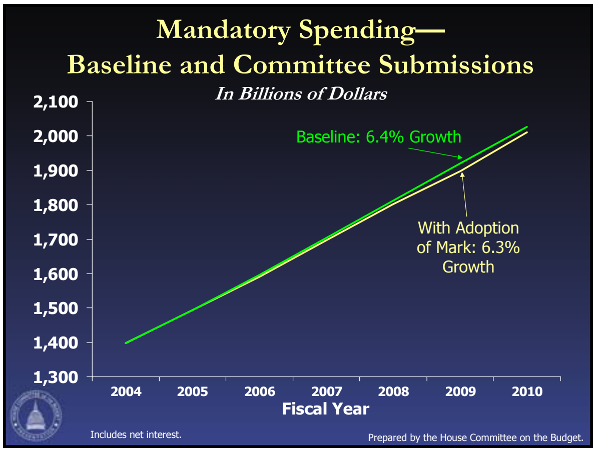
- The 66% federal match rate is an open-ended entitlement to states – there is no limit on the amount of federal funds states may claim.
- The legislation gradually reduces the federal matching rate for child support administrative costs from 66% in FY2006 to 50% in FY2010 – the same as the rate for Food Stamps, Medicaid and foster care and adoption assistance today.
- The legislation also clarifies current law to stop states from spending federal incentive funds for program administration and then receiving federal matching funds for those expenditures as if they were State funds – or “double dipping” at the federal government’s expense.
- CBO has included this change in its “Budget Options” book, dating all the way back to 1997.

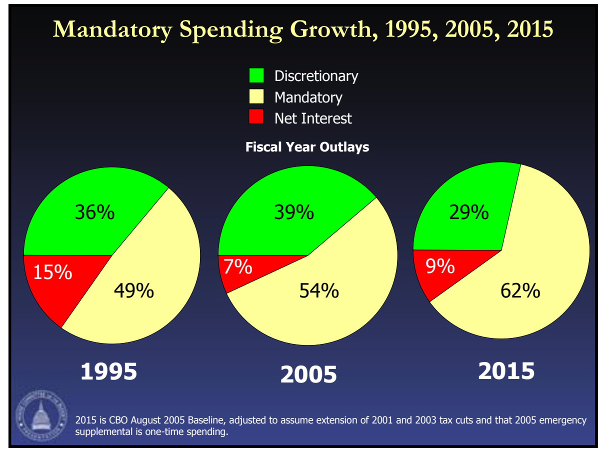
Fact: Child support administrative spending has continued to grow rapidly, even as child support cases have been dropping.

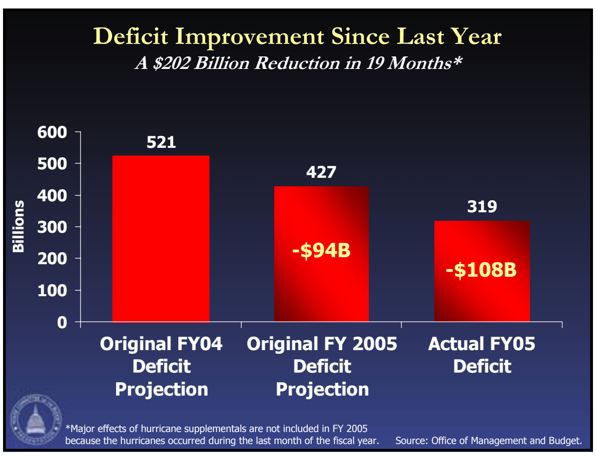
- According to the Congressional Research Service, during the period FY1999–FY2003, total child support enforcement (CSE) administrative expenditures *increased* 29% while the CSE caseload *declined* 8%.
- Just as welfare caseloads have fallen, the share of child support cases involving families now on welfare has dropped 63%.
- Today, fewer than 10% of all child support collections involve TANF cases.

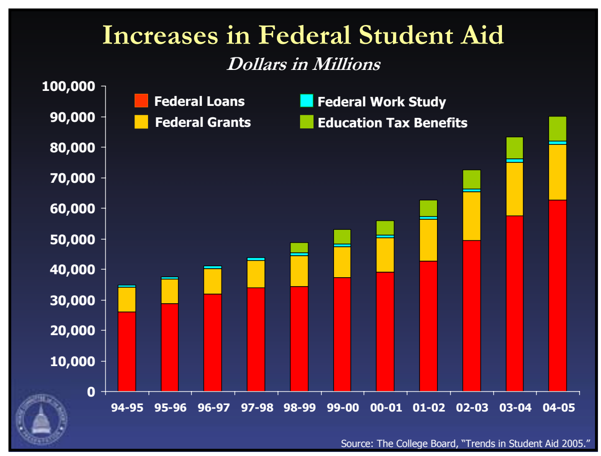
Fact: Despite the significant gains states experience from an efficient child support program and the evolution of the program away from simply recouping welfare costs, the financing for the child support enforcement program -- unless changed -- will remain supported overwhelmingly by federal funds.

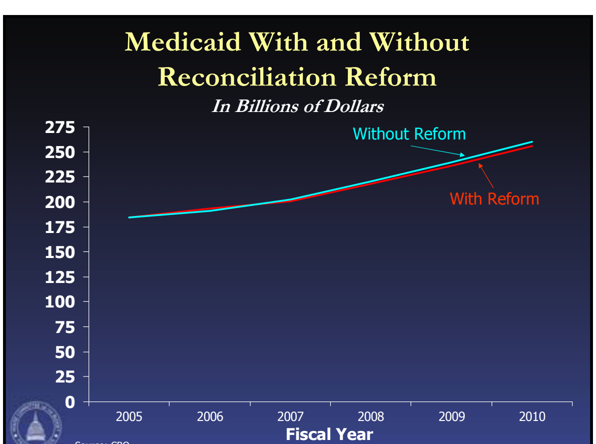
- A recent study by the U.S. Government Accountability Office indicates that current federal funding for administrative costs under the child support enforcement program is among the most generous of major federal entitlement programs.
- GAO found that federal funds support 88 percent of net costs in the child support program, far exceeding the federal share of such costs under foster care and adoption and health care programs, including Medicaid.
- The proposed changes will result in a program that remains supported mostly by federal funds, but at a reduced rate from today's unjustifiable 88 percent federal share. After 2009, the federal matching rate for administrative costs will be 50 percent, plus the federal government will continue to contribute about $500 million per year in federal incentive funds that states use for administering the program.

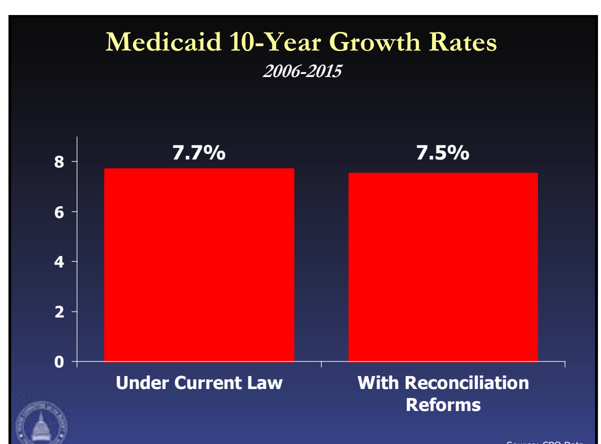

Mandatory Spending—
Baseline and Committee Submissions
In Billions of Dollars
2,100
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
Baseline: 6.4% Growth
With Adoption of Mark: 6.3% Growth
2004
2005
2006
2007
2008
2009
2010
Fiscal Year
Includes net interest.
Prepared by the House Committee on the Budget.

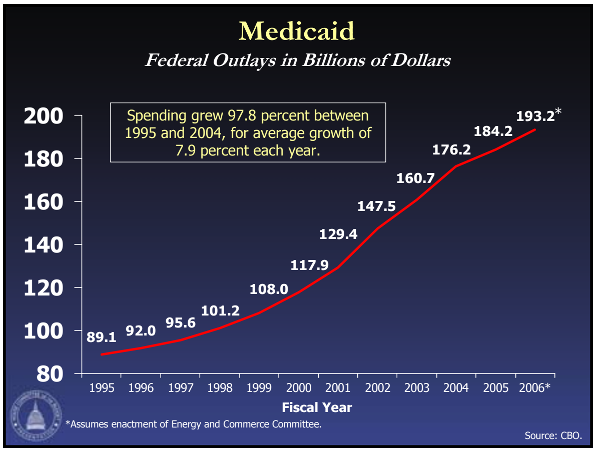

Mandatory Spending Growth, 1995, 2005, 2015
Discretionary
Mandatory
Net Interest
Fiscal Year Outlays
36%
15%
49%
39%
7%
54%
29%
9%
62%
1995
2005
2015
2015 is CBO August 2005 Baseline, adjusted to assume extension of 2001 and 2003 tax cuts and that 2005 emergency supplemental is one-time spending.

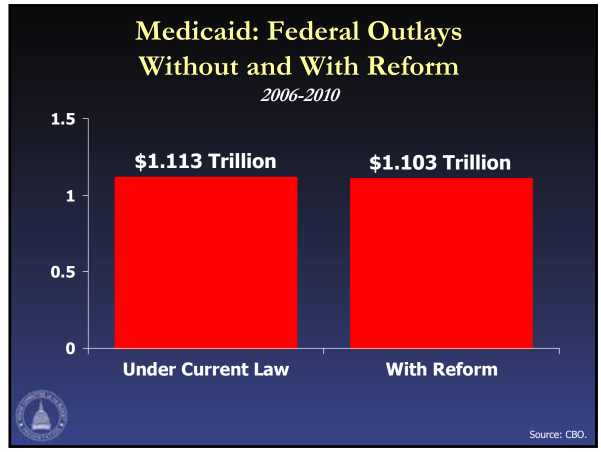

Deficit Improvement Since Last Year
A $202 Billion Reduction in 19 Months*
600
500
400
300
200
100
0
Billions
521
427
319
-$94B
-$108B
Original FY04 Deficit Projection
Original FY 2005 Deficit Projection
Actual FY05 Deficit
*Major effects of hurricane supplementals are not included in FY 2005 because the hurricanes occurred during the last month of the fiscal year.
Source: Office of Management and Budget.

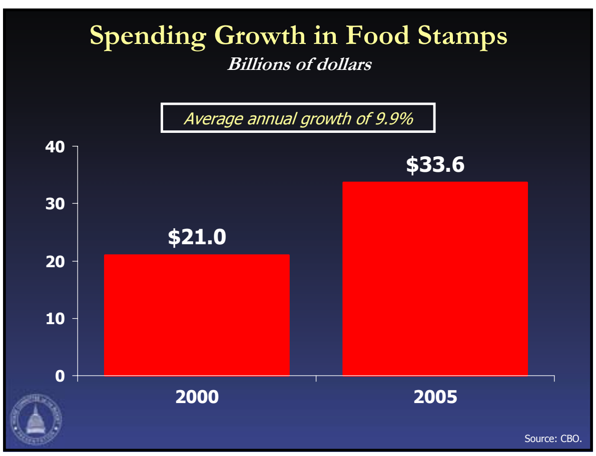

Increases in Federal Student Aid
Dollars in Millions
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Federal Loans
Federal Grants
Federal Work Study
Education Tax Benefits
94-95
95-96
96-97
97-98
98-99
99-00
00-01
01-02
02-03
03-04
04-05
Source: The College Board, "Trends in Student Aid 2005."

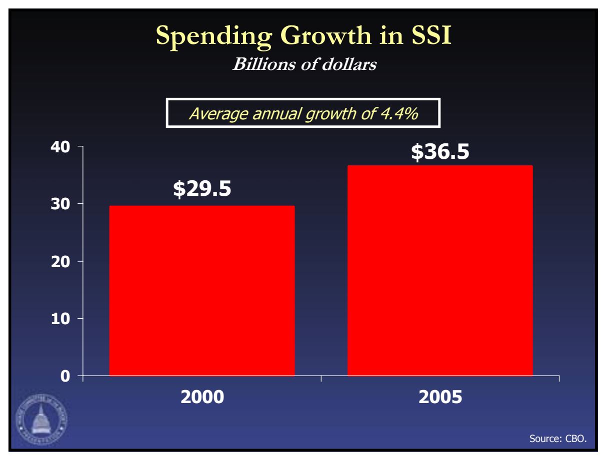

Medicaid With and Without Reconciliation Reform
In Billions of Dollars
275
250
225
200
175
150
125
100
75
50
25
0
Without Reform
With Reform
2005
2006
2007
2008
2009
2010
Fiscal Year
Source: CBO.
Prepared by the House Committee on the Budget.

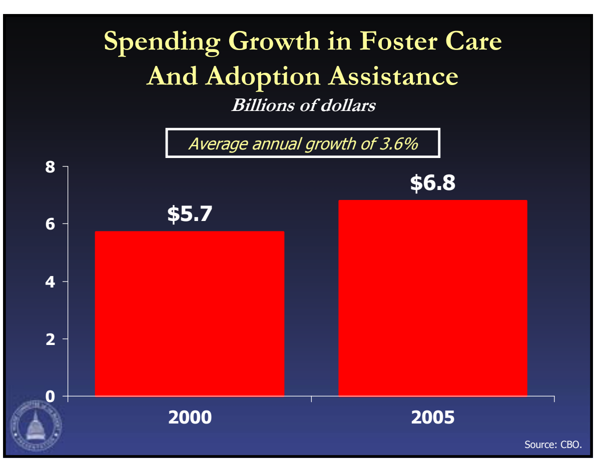

Medicaid 10-Year Growth Rates
2006-2015
8
6
4
2
0
7.7%
7.5%
Under Current Law
With Reconciliation Reforms
Source: CBO Data.

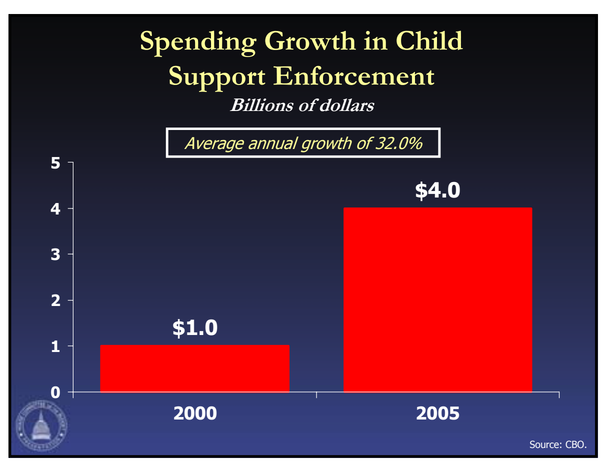

Medicaid
Federal Outlays in Billions of Dollars
Spending grew 97.8 percent between 1995 and 2004, for average growth of 7.9 percent each year.
200
180
160
140
120
100
80
89.1
92.0
95.6
101.2
108.0
117.9
129.4
147.5
160.7
176.2
184.2
193.2*
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006*
Fiscal Year
*Assumes enactment of Energy and Commerce Committee.
Source: CBO.

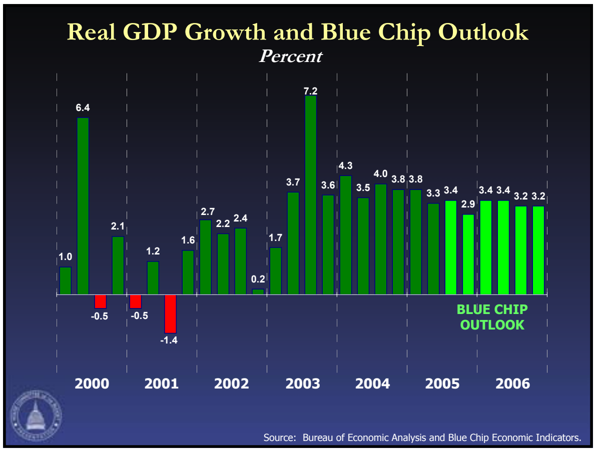

Medicaid: Federal Outlays Without and With Reform
2006-2010
1.5
1
0.5
0
$1.113 Trillion
$1.103 Trillion
Under Current Law
With Reform
Source: CBO.

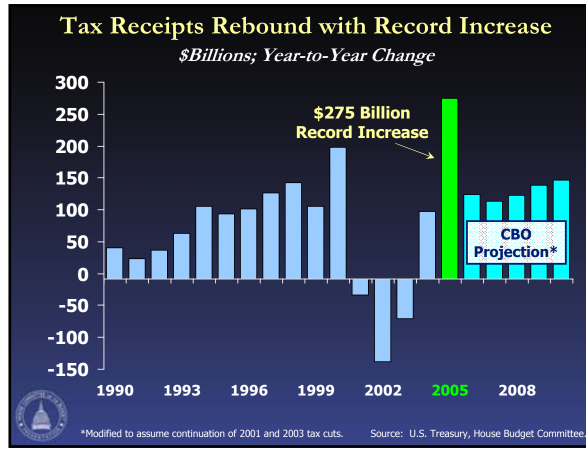

Spending Growth in Food Stamps
Billions of dollars
Average annual growth of 9.9%
40
30
20
10
0
$21.0
$33.6
2000
2005
Source: CBO.

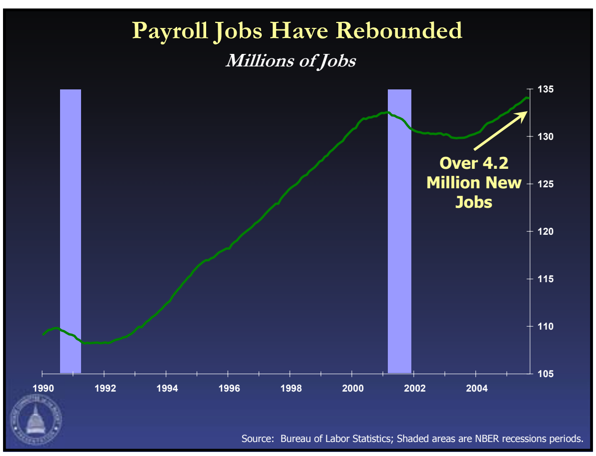

Spending Growth in SSI
Billions of dollars
Average annual growth of 4.4%
40
30
20
10
0
$29.5
$36.5
2000
2005
Source: CBO.

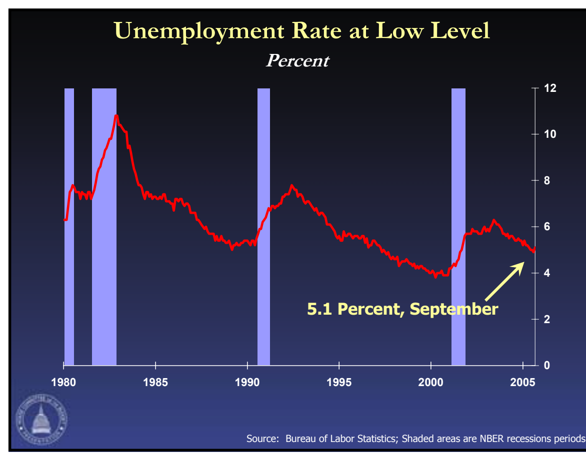

Spending Growth in Foster Care And Adoption Assistance
Billions of dollars
Average annual growth of 3.6%
8
6
4
2
0
$5.7
$6.8
2000
2005
Source: CBO.


Spending Growth in Child Support Enforcement
Billions of dollars
Average annual growth of 32.0%
5
4
3
2
1
0
$1.0
$4.0
2000
2005
Source: CBO.


Real GDP Growth and Blue Chip Outlook
Percent
1.0
6.4
-0.5
2.1
-0.5
1.2
-1.4
1.6
2.7
2.2
2.4
0.2
1.7
3.7
7.2
3.6
4.3
3.5
4.0
3.8
3.8
3.3
3.4
2.9
3.4
3.4
3.2
3.2
BLUE CHIP OUTLOOK
2000
2001
2002
2003
2004
2005
2006
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators.


Tax Receipts Rebound with Record Increase
$Billions; Year-to-Year Change
300
250
200
150
100
50
0
-50
-100
-150
$275 Billion Record Increase
CBO Projection*
1990
1993
1996
1999
2002
2005
2008
*Modified to assume continuation of 2001 and 2003 tax cuts.
Source: U.S. Treasury, House Budget Committee.


Payroll Jobs Have Rebounded
Millions of Jobs
135
130
125
120
115
110
105
Over 4.2 Million New Jobs
1990
1992
1994
1996
1998
2000
2002
2004
Source: Bureau of Labor Statistics; Shaded areas are NBER recessions periods.


Unemployment Rate at Low Level
Percent
12
10
8
6
4
2
0
5.1 Percent, September
1980
1985
1990
1995
2000
2005
Source: Bureau of Labor Statistics; Shaded areas are NBER recessions periods.